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PAGE 01 NEW DE 09285 110844Z

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SUBJECT: ECONOMIC SITUATION AND PROGRAMS

REF: (A) NEW DELHI 8831 (B) NEW DELHI 9028

SUMMARY: THIS IS FIRST IN A SERIES OF REPORTS ON CURRENT DOMESTIC
ECONOMIC SITUATION, STATUS OF MRS. GANDHI'S "NEW" ECONOMIC
PROGRAM AND REACTION TO IT. THE MONSOON A CENTRAL FACT OF INDIA
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PAGE 02 NEW DE 09285 110844Z

LIFE HAS TURNED GENERALLY FAVORABLE SINCE AROUND JUNE 20. AS

A RESULT, GOVERNMENT SPOKESMEN ARE OPTIMISTIC ABOUT INCREASED AGRICULTURAL PRODUCTION, AND ELECTRICAL POWER SITUATION HAS IMPROVED. THIS FAVORABLE SET OF CIRCUMSTANCES MUST BE DISTINGUISHED FROM GOI'S RECENT ECONOMIC MEASURES, WHICH ARE STILL MOSTLY WORDS. CURRENT EMERGENCY POWERS MAY BRING ABOUT BETTER IMPLEMENTATION OF ECONOMIC POLICIES, BUT IT IS TOO EARLY TO SAY WHETHER ANY REAL ECONOMIC REFORMS WILL TAKE PLACE. END SUMMARY.

1. THE MONSOONS FUNDAMENTALLY AFFECT INDIA'S ECONOMIC LIFE, PARTICULARLY AGRICULTURAL AND INDUSTRIAL PRODUCTION. DURING THE CURRENT MONSOON SEASON CUMULATIVE RAINFALL SO FAR HAS BEEN NORMAL OR ABOVE NORMAL IN MOST PARTS OF THE COUNTRY OTHER THAN EASTERN AND NORTHEASTERN STATES. GOI SPOKESMEN ARE OPTIMISTIC ABOUT PROSPECTS FOR A FAVORABLE KHARIF (FALL AND WINTER) CROP THIS YEAR. SEEDS, FERTILIZERS AND PESTICIDES ARE CLAIMED TO BE IN SUFFICIENT SUPPLY. PLANTINGS FOR THIS YEAR'S KHARIF PADDY CROP HAVE BEEN COMPLETED IN MOST OF PRODUCING STATES ALMOST ON TIME. ACCORDING TO GOI AGRICULTURAL COMMISSIONER, PUNJAB AND HARYANA ARE NOW ENJOYING IDEAL CONDITIONS, INCLUDING ELECTRICAL POWER SURPLUS, FOR INCREASED OUTPUT OF KHARIF GRAINS, PARTICULARLY RICE. RESERVE BANK OF INDIA (RBI) HAS ESTIMATED THAT TOTAL FOODGRAIN PRODUCTION IN 1974-75 REACHED 104-105 MILLION MT, 62 FROM KHARIF CROP, 4-43 FROM RABI. BY COMPARISON, GOVERNMENT'S AGRICULTURAL PRODUCTION GOAL FOR CROP YEAR 1975-76 IS 114 MILLION MT (69, KHARIF AND 45, RABI).

2. PRICES OF IMPORTANT FOODSTUFFS, PARTICULARLY WHEAT, SUGAR, AND PULSES BEGAN TO DECLINE DURING THE LAST WEEK OF JUNE AND HAVE CONTINUED TO DECLINE. THUS FAR IN JULY. A SLIGHT EASING IN RICE PRICES HAS ALSO DEVELOPED OVER THE LAST FEW DAYS. REASONS FOR THIS SITUATION INCLUDE STOCK LIQUIDATION, INCREASED OUTPUT, AND FEAR OF PENALTIES AGAINST HOARDING UNDER NEW EMERGENCY POWERS (REF.A). FOOD PRICE DECREASES MAY BE SHORT TERM AFFAIR BECAUSE OF LIQUIDATION OF INVENTORIES. LOWER SUPPLIES OF FOODSTUFFS PRIOR TO KHARIF HARVEST COULD BRING AN UPTURN IN PRICES LATER THIS SUMMER. GOVERNMENT AUTHORITIES HAVE INDICATED THEY WANT STEADY, NOT PRECIPITOUS, DECLINE IN PRICES IN ORDER NOT TO CAUSE DISINCENTIVES FOR PRODUCES.

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PAGE 03 NEW DE 09285 110844Z

3. GOI SPOKESMEN SEEM RELATIVELY OPTIMISTIC ABOUT INCREASING PRODUCTION OF INDUSTRIAL GOODS, SUCH AS STEEL, AND RAW MATERIALS (E.G., COAL). ONE REASON FOR THIS CONFIDENCE HAS BEEN IMPROVED ELECTRICAL POWER SITUATION. IN RECENT WEEKS ELECTRICAL POWER CUTS HAVE BEEN ELIMINATED IN SEVERAL STATES. ACCORDING TO ENERGY MINISTER PANT, NO POWER RESTRICTIONS CURRENTLY EXIST, EXCEPT IN ANDHRA PRADESH, MADHYA PRADESH AND WEST BENGAL, ALTHOUGH WE UNDERSTAND THAT POWER CUTS STILL PREVAIL IN SEVERAL OTHER

STATES.

4. MRS. GANDHI HAS STRESSED IMPORTANCE OF RAISING OUTPUT AND CAPACITY UTILIZATION. MINISTER OF STATE FOR INDUSTRY AND CIVIL SUPPLIES GEORGE REPORTEDLY TOLD INDUSTRIAL LEADERS THAT GOI WILL ASSUME FULL RESPONSIBILITY FOR SUPPLY OF ALL INPUTS, INCLUDING POWER AND RAW MATERIALS, TO INDUSTRIES ENGAGED IN MANUFACTURE OF ESSENTIAL GOODS. ALTHOUGH THERE HAS BEEN SOME VARIED COMMENT, BUSINESS REACTION TO THESE PRONOUNCEMENTS (AS WELL AS RECENTLY ANNOUNCED ECONOMIC PROGRAM) HAS GENERALLY BEEN FAVORABLE. BIG BUSINESS LEADERS HAVE BEEN RELIEVED THAT THERE HAS BEEN NO GOVERNMENT CALL FOR NATIONALIZATION AND FEEL CONFIDENT THAT MRS. GANDHI NEEDS THEM TO ACHIEVE FAVORABLE ECONOMIC RESULTS IN GENERAL AND INCREASED PRODUCTION IN PARTICULAR. HOWEVER, BUSINESS SPOKESMEN HAVE INDICATED CONCERN ABOUT AVAILABILITY OF FUNDS TO EXPAND OUTPUT. RBI HAS CONTINUED TO FOLLOW TIGHT CREDIT POLICY IN ORDER TO DAMPEN INFLATIONARY PRESSURES. PRIME MINISTER RECENTLY STATED THAT "THERE COULD BE NO RETURN TO DAYS OF EASY CREDIT." HOWEVER, RBI HAS BEEN INSTRUCTED TO CONTINUE LOANS TO HIGH PRIORITY PRODUCTION AREAS, PARTICULARLY AGRICULTURE, LOCAL MASS CONSUMPTION GOODS, AND EXPORT MARKET.

5. GOI IS EXHORTING INDUSTRIAL REPRESENTATIVES TO REDUCE PROFIT MARGINS AND COSTS IN AN ATTEMPT TO MAINTAIN DOWNWARD PRESSURE ON PRICES. PUBLIC SECTOR ENTERPRISES HAVE REPORTEDLY PLEDGED TO KEEP PRICES OF MOST OF THEIR PRODUCTS AT APRIL 1975 LEVEL. IN TURN, GOVERNMENT AUTHORITIES WILL LOOK INTO POSSIBLE RATIONIZATION OF EXCISE AND OTHER TAXES THAT COULD LOWER PRICES. MRS. GANDHI HAS CALLED FOR JOINT GOVERNMENT-INDUSTRY PRODUCTION AND PRICE PANELS IN ATTEMPT TO REDUCE COSTS. HOWEVER, GOI IS APPARENTLY BEING FLEXIBLE REGARDING INDUSTRIAL PRICES. GOVERNMENT HAS ANNOUNCED A VERY SUBSTANTIAL 35 PERCENT INCREASE OF RS.17.50 PER METRIC TON IN THE PRICE OF COAL (BECAUSE OF HIGHER WAGE LIMITED OFFICIAL USE

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PAGE 04 NEW DE 09285 110844Z

AND INPUT COSTS THIS YEAR) AND A 4 PERCENT INCREASE OF RS. 80 PER TON FOR STEEL. ALSO, CABINET'S COMMITTEE ON POLITICAL AFFAIRS HAS REPORTEDLY ENDORSED NEW BASIS FOR FIXING PETROLEUM PRICES THAT WILL APPARENTLY LEAD TO UPWARD REVISION IN PRICES OF SOME PETROLEUM PRODUCTS.

6. GOVERNMENT'S "NEW" ECONOMIC PROGRAM EXISTS ONLY ON PAPER SO FAR, WITH EXCEPTION OF INCREASES IN INCOME TAX EXEMPTION LEVEL AND LAPSE OF COMPULSORY DEPOSIT SCHEME ON INCREASED WAGES (REF-TELS). FEW SPECIFIC BENEFITS HAVE YET BEEN OFFERED TO WORKERS OR FARMERS. PRIVATE REACTIONS OF LABOR LEADERS TO PROGRAM HAVE RANGED FROM APPROVAL TO SKEPTICISM DEPENDING ON POLITICAL LOYALTIES. BUSINESS REACTION REMAINS FAVORABLE IN HOPE THAT GOI WILL ELIMINATE RED TAPE AND DELAYS WHICH HAVE BOGGED INDUSTRIAL SECTOR FOR YEARS.

7. COMMENT: IT MAY BE (BUT REMAINS TO BE SEEN) EMERGENCY POWERS WILL ENABLE MRS. GANDHI TO IMPLEMENT ECONOMIC POLICIES MORE EFFECTIVELY THAN HAS BEEN DONE IN THE PAST. ON THE OTHER HAND, SHE MUST CONSIDER THE CONSEQUENCES OF REAL ECONOMIC REFORMS, PARTICULARLY IN THE COUNTRYSIDE, BECAUSE POLITICAL AND ECONOMIC COSTS AND BENEFITS ARE UNKNOWN. WHATEVER MRS. GANDHI DOES OR DOES NOT DO, AS IN THE PAST, THE INDIAN ECONOMY, WHICH IS TENDING UPWARD AT THE PRESENT TIME, WILL DEPEND, AT LEAST IN THE SHORT RUN, PRIMARILY ON THE MONSOON.
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